

COMPLIANCE AND CONTROL AUDIT REPORT

Juvenile Correctional Facilities

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
April 2001**

Legislative Post Audit Committee

Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three

members of the Legislative Post Audit Committee (including the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

Representative Lisa Benlon, Chair
Representative Richard Alldritt
Representative John Ballou
Representative Dean Newton
Representative Dan Thimesch

Senator Lynn Jenkins, Vice-Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

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Barbara J. Hinton, Legislative Post Auditor

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LEGISLATURE OF KANSAS
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April 17, 2001

To: Members, Legislative Post Audit Committee

Representative Lisa Benlon, Chair
Representative Richard Alldritt
Representative John Ballou
Representative Dean Newton
Representative Dan Thimesch

Senator Lynn Jenkins, Vice-Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the Juvenile correctional facilities. We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink, reading "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Question 1: Have the Juvenile Correctional Facilities Handled Their Locally Administered Moneys Appropriately and In Accordance with Applicable Requirements?

The juvenile correctional facilities generally have handled their locally administered moneys appropriately and in accordance with applicable requirements. page 3
For the most part, the facilities had appropriate and required practices in place. Two exceptions are:

- The Topeka and Beloit Juvenile Correctional Facilities didn't transfer moneys from their canteen funds to their benefit funds as required by the appropriations acts. Instead, moneys that would have been transferred were left in the canteen funds. Historically, transfers of canteen fund profits were the major source of funding for the facilities' benefit funds. However, because pay phone commissions now provide a significant source of revenues for those benefit funds, it may be that the Facilities no longer need to make such transfers.

Recommendation page 5

- The Beloit Juvenile Correctional Facility doesn't have complete written procedures for handling its locally administered funds, such as canteen and trust funds. Written procedures help ensure that another employee will be able to process local fund transactions appropriately and with minimal disruption if a fund's custodian isn't available for some reason.

Recommendation page 5

Question 2: Did the Juvenile Correctional Facilities Pay Their Vendors in a Timely Manner?

As a group, the Juvenile Correctional Facilities made about 92% of their payments to vendors on a timely basis. page 6
To test compliance with the Kansas Prompt Payment Act, we looked at a sample of 30 payments to vendors for each of the 3 facilities. These payments accounted for 99 purchases. Only 8 payments were late, and 5 of those were made within about 2 weeks of the date required. For our sample of payments, the facilities didn't have to pay any late fees or finance charges.

Agency Response page 7

This audit was conducted by Randy Tongier and Steve Ballantyne. Randy Tongier was the audit manager. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

The Juvenile Correctional Facilities

The Legislative Division of Post Audit has conducted compliance and control audit work at the Juvenile Correction Facilities located in Topeka, Atchison, and Beloit. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on the use of locally administered moneys held by the Juvenile Correction Facilities, and on whether the facilities make timely payments to vendors. The audit addresses the following specific questions:

- 1. Have the juvenile correctional facilities handled their locally administered moneys appropriately and in accordance with applicable requirements?**
- 2. Did the juvenile correctional facilities pay their vendors on a timely basis?**

To answer these questions, we reviewed applicable provisions of State law, interviewed officials at the juvenile correctional facilities, reviewed and evaluated facility procedures, and reviewed a sample of facility files and records. This audit work covers fiscal year 2000.

The State also has a juvenile correctional facility at Larned. However, most of the business operations of that facility actually are carried out by business office staff of the Larned State Hospital. Given that, an audit of the Larned Juvenile Correctional Facility's business operations would really be an audit of Larned State Hospital's business office. As a result, we chose not to include the Larned Juvenile Correctional Facility in this audit, and to cover that facility in compliance and control audit work done at Larned State Hospital.

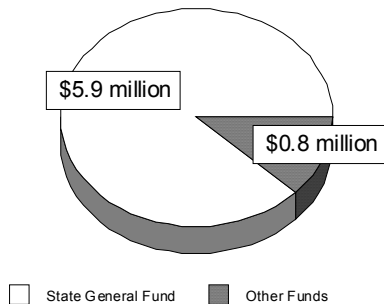
In conducting this audit, we followed all applicable government auditing standards.

The Juvenile Correction Facilities AT A GLANCE

Authority: Created by K.S.A. 76-2101 (Topeka), 76-2101b (Atchison), 76-2201, (Beloit).
Staffing: The juvenile correctional facilities had a total of 450 combined staff positions during fiscal year 2000.
Budget: Each facility receives the majority of its funding from the State General Fund.

Atchison Juvenile Correctional Facility

FY 2000 Funding Sources



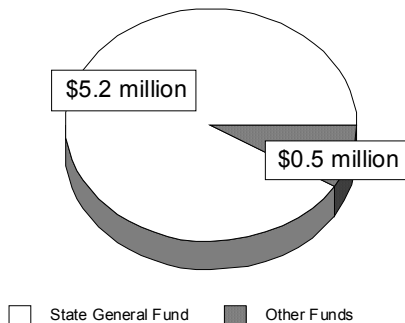
Total Funding: \$6.8 million

FY 2000 Expenditures

Type	Amount	% of Total
Salaries/Wages	\$3,829,897	57 %
Contractual Services	1,934,352	28 %
Commodities	316,508	5 %
Capital Improvements	591,642	9 %
Capital Outlay	80,998	1 %
Total Expenditures:	\$ 6,753,397	100%

Beloit Juvenile Correctional Facility

FY 2000 Funding Sources



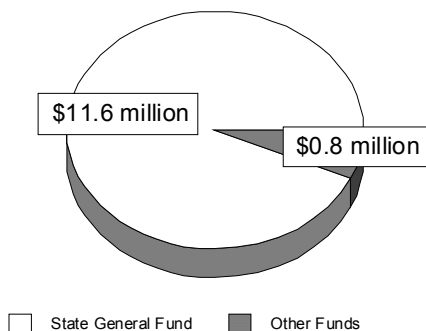
Total Funding: \$5.7 million

FY 2000 Expenditures

Type	Amount	% of Total
Salaries/Wages	\$3,293,983	58 %
Contractual Services	1,854,548	32 %
Commodities	312,778	5 %
Capital Improvements	179,615	3 %
Capital Expenditures	98,979	2 %
Total Expenditures:	\$ 5,739,903	100%

Topeka Juvenile Correctional Facility

FY 2000 Funding Sources



Total Funding: \$12.4 million

FY 2000 Expenditures

Type	Amount	% of Total
Salaries/Wages	\$7,714,561	62 %
Contractual Services	3,678,662	30 %
Commodities	513,390	4 %
Capital Improvements	333,243	3 %
Capital Expenditures	176,542	1 %
Total Expenditures:	\$12,416,398	100%

Question 1: Have the Juvenile Correctional Facilities Handled Their Locally Administered Moneys Appropriately and In Accordance with Applicable Requirements?

With a few exceptions, the Juvenile Correctional Facilities have handled their locally administered moneys appropriately and in accordance with applicable requirements. The Topeka and Beloit Facilities didn't transfer moneys from their Canteen Funds to their Benefit Funds as required by the appropriations acts, but it appears those transfers probably weren't needed. In addition, the Beloit Facility hadn't adequately put its procedures in writing. These and other findings are discussed in the sections that follow.

The Juvenile Correctional Facilities Generally Have Handled Their Locally Administered Moneys Appropriately and In Accordance With Applicable Requirements

The Juvenile Correctional Facilities at Topeka, Atchison, and Beloit are responsible for several different kinds of locally administered funds. This audit focused on the 3 largest of these funds at each facility. A brief description of those funds follows:

- Canteen Fund--A canteen at each facility sells items such as snacks and personal care items to residents. The Canteen Fund is used to deposit revenues and pay for inventory and any operating costs. A portion of a canteen's profits may be transferred to a facility's Benefit Fund.
- Trust Fund--Residents may receive moneys from relatives or work-study earnings. These moneys are deposited into the facility's Trust Fund. These moneys may be used for such things as canteen purchases.
- Benefit Fund--The Benefit Fund pays the cost of activities or purchases for the residents' entertainment or welfare. A major source of moneys is commissions from pay phones used by the residents. Another source would be transfers of canteen profits.

The facilities are responsible for developing procedures to ensure that locally administered moneys are being used appropriately and for following those procedures. In addition, State law and the Division of Accounts and Reports have specified certain procedures that are required. Basic procedures to help ensure that moneys are properly used and that the facilities meet the applicable requirements are as follows:

- Designate an individual to be responsible for the each of the funds
- Require authorization for payments from the funds
- Have different people responsible for authorizing purchases and writing checks
- Keep records of transactions and balances
- Reconcile fund records with bank statements on a monthly basis
- Prepare periodic financial reports for management review
- Document and communicate adopted procedures
- Deposit moneys in interest-bearing bank accounts
- Make any transfers required by law

To determine the procedures used by each facility we interviewed appropriate facility officials, reviewed written procedures, examined financial reports, and tested a sample of transactions. We then compared those actual procedures to the best practices and required procedures listed above. In general, the facilities had appropriate and required practices in place. The few exceptions are discussed below.

The Topeka Juvenile Correctional Facility and the Beloit Juvenile Correctional Facility didn't transfer moneys from their Canteen Funds to their Benefit Funds as required by the appropriations acts. The 1999 Kansas Legislature directed the Juvenile Correction Facilities to transfer moneys from their Canteen Funds to their Benefit Funds during Fiscal Year 2000 in the following amounts:

Topeka Facility	\$4,000
Beloit Facility	1,000
Atchison Facility	500

The Atchison Facility made its required transfer, but the Topeka and Beloit Facilities didn't. The accounting specialist at the Topeka Facility told us she was unaware of the requirement. Beloit Facility Business Office staff told us they consulted with the Division of Accounts and Reports about not making the transfer because it wasn't needed. They pointed out that the Facility's Benefit Fund had a significant cash balance at the end of Fiscal Year 2000.

In the past, canteen profits were a major source of revenue for the facilities' Benefit Funds. However, each facility now receives commissions from the pay telephones on campus, and deposits these moneys into its Benefit Fund. Those telephone commissions

provide a significant source of revenues, which has allowed the facilities to accumulate adequate fund balances. The table below shows that the authorized transfers for fiscal year 2000 were relatively small in comparison to the phone revenues and the ending Fund balances.

<u>Facility</u>	<u>Approximate Phone Revenues</u>	<u>Approximate Ending Fund Balances</u>	<u>Authorized Transfers</u>	<u>Transfers as a % of Phone Revenues</u>	<u>Transfers as a % of Ending Balances</u>
Topeka	\$60,000	\$140,000	\$4,000	7%	3%
Atchison	\$14,000	\$11,000	\$500	4%	5%
Beloit	\$17,000	\$30,000*	\$1,000	6%	3%

This balance includes about \$8,000 in reimbursements due that were in process at the end of FY 2000.

Clearly the authorized transfers would not be significant additions to the Benefit Funds, and it may be that, with current phone revenues, future transfers of canteen fund profits may not be needed.

<i>Recommendation</i>	To ensure that transfers directed by the appropriations acts are needed, the Juvenile Correctional Facilities, consulting with the Juvenile Justice Authority as their oversight agency, should work with the Division of the Budget and the fiscal staff of the Legislative Research Department to reassess the need for future transfers of canteen profits to the Benefit Funds.
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The Beloit Juvenile Correctional Facility doesn't have complete written procedures for handling its locally administered funds. As part of our review, we looked for evidence of written procedures explaining how staff should handle locally administered funds. Written procedures help ensure that another employee will be able to process local fund transactions appropriately and with a minimal disruption if the fund's custodian isn't available for some reason. We found that the Topeka and Atchison Facilities have adequate written procedures. However, although it's started the process, the Beloit Facility hasn't developed full written procedures.

<i>Recommendation</i>	The Beloit Juvenile Correctional Facility should continue its efforts to complete written procedures for its locally administered moneys.
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Question 2: Did the Juvenile Correctional Facilities Pay Their Vendors in a Timely Manner?

The Topeka, Beloit, and Atchison Juvenile Correction Facilities generally paid their vendors on a timely basis. Most of the payments made late were made within 2 weeks of the due date. None of the facilities incurred additional finance charges or late fees as a result of any late payments. The basis for these findings is summarized below.

Together, the Juvenile Correctional Facilities Made About 92% of Their Payments To Vendors on a Timely Basis

The Kansas Prompt Payment Act (K.S.A. 75-4603) requires State agencies to pay bills within 30 days of receiving the goods or services or 30 days after the invoice is received, whichever is later. To see if the Juvenile Correctional Facilities complied with this requirement, we reviewed a total of 30 payments from each facility. These payments accounted for 99 purchases.

For our samples, frequency of timely payments ranged from 88% at the Topeka Facility to 97% at the Beloit Facility. Of the 8 late payments we identified, 5 were made within about 2 weeks of the date required. One payment was made more than 4 months after the due date, although the amount involved was only \$3.75.

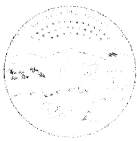
When payments aren't made on a timely basis, vendors sometimes add a finance charge or late fee to the amount due. In extreme cases, vendors may ask for prepayments, or may even refuse to do business with chronic late payers. On the other hand, if a payment is made quickly, some vendors offer a reduction in the amount due (a discount). For the payments we reviewed, no additional finance charges or late fees were incurred.

APPENDIX A

Agency Response

On February 1, 2001, we provided copies of the draft audit report to the Juvenile Justice Authority. Its response is included as this Appendix.

After the draft report was sent to the Authority, we became aware of additional information that made a recommendation regarding interest-bearing bank accounts unnecessary. That recommendation isn't in the final report.



BILL GRAVES
Governor

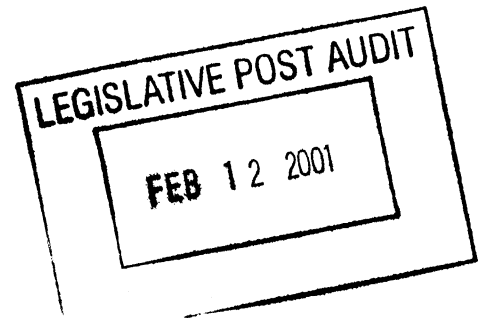
Juvenile Justice Authority

Albert Murray, Commissioner

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Topeka, Kansas 66603
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February 9, 2001

Ms. Barbara J. Hinton
Legislative Division of Post Audit
800 Southwest Jackson, Suite 1200
Topeka, KS 66612-2212



Dear Ms. Hinton:

Thank you for the opportunity to comment on the Juvenile Correctional Facilities Compliance and Control Audit Report. I am quite comfortable with the report and have only a few comments.

The following relate specifically to the Beloit audit report:

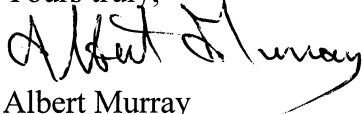
1. The Beloit Juvenile Correctional Facility has procured copies of the policies/procedures written and utilized at the Topeka facility, and will revise current policies to contain the level of detail provided at the other JCF's. Policy revisions will be completed by February, 28, 2001.
2. The Beloit Juvenile Correctional Facility may pursue a request for limited exemption from the statutory requirement, thus maintaining the existing posture of utilizing both checking and savings accounts. If exemption is not granted, the facility will then combine both functions into one NOW account, which is "interest bearing" in nature. This will be accomplished by March 31, 2001.

In addition, facilities have not always transferred money from the Canteen Fund to the Patient Benefit Fund because financial need did not exist to do so. We may recommend that this provision be removed as a mandatory requirement in the annual appropriations bill. However, unless such a change is enacted, facilities will transfer amounts annually as stipulated by the appropriations bill. This likely would be performed on the first working day of each fiscal year.

Barbara Hinton
February 9, 2001
Page two

I would like to thank you and your staff for the professionalism, objectivity, and general demeanor while conducting the audit. This has been a good experience for the Juvenile Justice Authority and one that we will learn from. Please contact my staff or me if you have questions or need additional information.

Yours truly,

A handwritten signature in black ink, appearing to read "Albert Murray", with a long, sweeping horizontal stroke extending to the right.

Albert Murray
Commissioner

AM:SA:bt

